

## Message Text

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11

ACTION ARA-10

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-01 INR-07

INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03 SAM-01 OES-03

SP-02 SS-15 STR-01 TRSE-00 FRB-03 IO-10 AGR-05 XMB-02

/098 W

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R 252100Z FEB 75

FM AMEMBASSY SAN SALVADOR

TO SECSTATE WASHDC 7491

INFO AMEMBASSY CARACAS

AMEMBASSY GUATEMALA

AMEMBASSY MANAGUA

AMEMBASSY SAN JOSE

AMEMBASSY TEGUCIGALPA

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EO 11652: N/A

TAGS: EFIN ES

SUBJ: VENEZUELAN OIL SCHEME

REF: A. SAN SALVADOR 5028 (1974) B. STATE 31596

GUATEMALA ALSO FOR ROCAP

1. THE FOLLOWING AMPLIFIES ON REFTEL A, RESPONDS TO REFTEL B AND REPORTS IN SUMMARY FORM WHAT WE HAVE LEARNED ABOUT THE FEBRUARY 24, LONG-AWAITED, VISIT OF THE VENEZUELAN TEAM TO SAN SALVADOR.

2. 3. EMBASSY FOUND SOME INCONSISTENCIES BETWEEN THE SUMMARY OF THE VENEZUELAN PETROLEUM FINANCING AGREEMENT AS REPORTED IN STATE 282960 AND DOCUMENTS ECONOFF VIEWED IN GOES'

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CENTRAL PLANNING OFFICE (CONAPLAN) IN DECEMBER. OUR INITIAL

THOUGHT WAS THAT THE SEVERAL AGREEMENTS MIGHT HAVE BEEN AT VARIANCE WITH EACH OTHER. NOW IT APPEARS THAT THE DIFFERENCE LIES BETWEEN PROVISIONS CONTAINED IN THE DRAFT AGREEMENT CIRCULATED PRIOR TO THE PUERTO ORDAZ PRESIDENTIAL MEETING AND THE BRIEFER AGREEMENT SIGNED ON DECEMBER 14. THE FORMER CONTAINED SUCH VARIANT PROVISIONS AS: REPAYMENT WOULD BE IN WHATEVER CURRENCY CALLED FOR BY THE VENFUND (FONDO) IF NOT IN BOLIVARES (OBVIOUSLY RAISING THE POTENTIAL OF REPAYMENT IN A CURRENCY EVEN HARDER THAN THE BOLIVAR); THAT UNUSED FUNDS (THOSE NOT CONVERTED TO 25 YEARS LOANS) WOULD BE REPAYABLE AFTER SIX YEARS IN EIGHT SEMI-ANNUAL PAYMENTS (THUS MAKING THE MINIMUM TERM OF THE LOAN TEN YEARS, WITH SIX YEARS GRACE, VICE THE SIX MENTIONED IN THE SIGNED AGREEMENT); AND, THE VENFUND SAFEGUARD, WHICH PROVIDED THAT WITH SIX MONTHS NOTICE, AND FOR BALANCE OF PAYMENTS REASONS, THE VENFUND COULD SUSPEND AND CALL THE LOANS. ACCORDING TO A PRELIMINARY CONTACT WITH THE KEY CONAPLAN OFFICIAL (PROTECT SOURCE) INVOLVED IN THE FEBRUARY 24 MEETING WITH THE VENEZUELAN TEAM ("PRESIDENT OF VENEZUELA'S CONGRESS AND SEVERAL OTHERS") NOT ALL THESE ISSUES WERE CLARIFIED DUE TO LACK OF TIME. IT WAS CLARIFIED THAT THE REBATE RELATES ONLY TO CRUDE PRICE FOB VENEZUELA, EXCLUDING ANY "COCKTAIL" ADDED VALUE.

3. RESPONDING TO QUESTIONS IN PAR.1, REFTEL B; (A) NO FORMAL ACCEPTANCE APART FROM THE SIGNED AGREEMENT OF DECEMBER 14 IS REQUIRED. (THIS IS NOT THE CASE WITH THE COFFEE RETENTION FINANCING, FOR WHICH A FORMAL AGREEMENT IS ANTICIPATED SHORTLY.) WHAT DID REMAIN WAS THE WORKING OUT OF PROCEDURES AND MUTUAL AGREEMENT ON CRITERIA FOR SPECIFIC DEVELOPMENT PROJECTS. (B) THE GOES HAS CONCERNED ITSELF TO DATE WITH PLANNING FOR THE CONVERSION OF THE 1975 REBATE, WHICH FOR WORKING PURPOSES IS ESTIMATED AT NO MORE THAN \$25 MILLIONS. THE VISITING VENEZUELAN TEAM REPORTEDLY APPROVED FOR VENFUND FINANCING THE GOES PROJECTS OF THE ATIACOYO IRRIGATION PROJECT (IDB INVOLVEMENT) AND THE CENTRAL SUGAR REFINERY BEING CONSTRUCTED BY THE INDUSTRIAL DEVELOPMENT BANK (INSAFI); THESE TWO PROJECTS WOULD UTILIZE ALL BUT \$3.2 MILLION OF THE ESTIMATED 1975 REBATE. THE GOES PLANS TO SOLICIT PRIVATE SECTOR OFFERS FOR USE OF THE DEVELOPMENT FINANCING AND HOPES THUS TO COMPLEMENT ELIGIBLE PUBLIC SECTOR NEEDS IN THE SUBSEQUENT YEARS. LIMITED OFFICIAL USE

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NO ESTIMATE IS AVAILABLE ON UTILIZATION OF FUNDS OVER THE SIX YEARS, BUT WE THINK A 75 PERCENT FIGURE WOULD BE CONSERVATIVE. (C) INDICATIONS ARE THAT THE GOES WILL SEEK TO USE THE FUNDS FOR DEVELOPMENT PURPOSES. ADDITIONAL COMMENT WILL BE MADE WHEN ITS VIEWS ARE BETTER KNOWN.

4. BEFORE THE FEBRUARY 24 VENEZUELAN TEAM VISIT, GOES OFFICIALS WERE NOT CLEAR ON THE OPERATING MECHANISM OF THE VENFUND.

ITS UNDERSTANDING NOW IS THE SAME AS THAT CONTAINED IN PAR. 2 REFTEL B. HOWEVER, THE SIX YEAR MONEY WHICH IS NOT CONVERTED INTO 25 YEAR PROJECT FINANCING APPARENTLY IS NOT REPEAT NOT AVAILABLE TO THE GOES. ACCORDING TO OUR CONTACT IT MAY NOT BE PLACED IN OFF-SETTING INTEREST BEARING INSTRUMENTS (E.G. U.S. TREASURY BONDS, CD'S, ETC.) BUT JUST SITS. THIS REVEL-ATION STRUCK A DISSONANT CORD WITH THE SALVADORANS. THUS, THE ANSWER TO PAR. 3 REFTEL B, APPEARS TO BE THAT THE SIX-YEAR FUNDS WILL NOT BE THE UNFETTERED PROPOERTY OF THE SALVADORAN CENTRAL BANK. THE IMPETUS TO CONVERT TO PROJECT FINANCING WILL BE ALL THE STRONGER.

5. THE SALVADORAN GOVERNMENT HAS BEEN MUTE TO THE PUBLIC CONCERNING THESE ARRANGEMENTS FOR THE STATED REASON THAT IT WAS ITSELF UNCLEAR CONCERNING THE DETAILS. THE ARRANGEMENT APPARENTLY WILL NOT INVOLVE THE PHYSICAL PRESENCE OF VENZUELANS AT THE SALVADORAN CENTRALBANK BUT UNDERSTANDING AND MUTUAL CONFIDENCE WILL RELY ON A PLANNED EXCHANGE OF TECHNICAL LEVEL MISSIONS. SUBSEQUENT TO THESE EXCHANGES, WE EXPECT THE GOES

TO DIVULGE PARTICULARS TO THE PRIVATE SECTOR AND ENCOURAGE ITS PARTICIPATION.

6. WE UNDERSTAND THAT THE VENEZUELAN TEAM LEFT EARLY A.M. FEBRUARY 25 FOR GUATEMALA AND THAT IS IS VISITING ALL CA COUNTRIES.  
CAMPBELL

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## Message Attributes

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